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Transco, Shippers and other  
interested parties

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1 July 2003

Dear Colleague,

**Network Code Modification 0565: Revision of Network Code Standards of Service.**

Ofgem has carefully considered the issues arising from modification proposal 0565, and has decided to direct Transco to implement the proposal as we believe that it will assist Transco in the fulfilment of its relevant code objectives. In this letter we explain the background to the modification and give our reasons for making our decision.

**Background to the proposal**

Standards of Service have played a key role in the relationship between Transco and its Users (Shippers) since the designation of Transco's Network Code in 1996. However, since then the structure and content of the standards of service package have not changed significantly.

The implementation of modification proposal 204 in July 1999 put in place the recommendations of Review Group 0072 and introduced a more appropriate set of service standards and associated liabilities so that Transco would be incentivised to provide a higher level of service to its customers. In November 2000 modification proposal 385 introduced incentives on Transco to resolve GRE (Gas Reconciled Energy) invoice queries which are raised and disputed by Shippers.

Discussions to overhaul the existing standards of service regime were initiated by Shippers in 2001. This group of shippers met frequently throughout 2001 and eventually raised modification proposal 514 in December 2001, which was subsequently sent to a Development Workgroup by the December meeting of the modification panel for an initial period of 6 months. Following extensive discussions, Transco raised the alternative proposal, modification 565, in July 2002. This proposal continued to be discussed in the

workgroup originally established to progress modification proposal 514 until January 2003, when the modification panel voted to send it out to consultation.

### **The modification proposal**

Modification proposal 565 seeks to introduce a complete Standards of Service package. The existing Standards of Service package has not been changed significantly since the implementation of modification proposal 204 in July 1999. As a result, this proposal consists of amendments to standards that already exist and a number of new standards covering activities that have not previously been subject to a performance standard or associated liabilities.

For the new package to operate effectively, it is proposed that a number of mechanisms are introduced. These are explained below:

#### **i) Absolute Limitation of Liabilities**

It is proposed that a cap on the amount of money allocated for the payment of liabilities for each performance standard will continue to apply under modification proposal 565, as currently. This cap will continue to be split equally across 'Larger' and 'Smaller' Supply Points, as originally recommended by Review Group 0072. Within these two larger caps are smaller sub-caps to cover each performance standard individually. The majority of sub-caps have been set at £5 million per standard. However, three of the proposed standards have a different weighting to better reflect the level of activity in these areas and the likely level of payments made against these standards. These are as follows:

1. Query resolution - £10 million.
2. File Formats - £3 million
3. Site visits - £2 million.

These standards do not impact on the absolute cap or the sum of the sub-caps which remain at £50 million and £60 million respectively (the latter being set at 20% greater than the absolute cap).

#### **ii) Query Management**

The management of queries is new to the existing Standards of Service package. All standards, definitions and terms of reference relating to this are defined in the 'Standards of Service Query Management Operational Guidelines' and are to be referenced within the Network Code. Due to the variety of queries that are raised and to ensure the correct allocation of queries and payments for sub-cap and shadow log purposes, it is necessary to split them into four sub-categories:

1. GT queries
2. Meter Asset queries
3. Large Supply Point queries
4. Small Supply Point queries

Transco currently has a system for dealing with Operational and Invoicing queries called ConQuest. This system provides a mechanism for identifying valid and invalid queries. However, which categories of invalid queries should be counted within the Shadow Log are not covered by ConQuest but are included in the proposed new Operational Guidelines.

It should be noted that standards relating to Metering Query Resolution are transitional and will be removed from the Network Code once meter unbundling is implemented under the Review of Gas Metering Arrangements (RGMA) programme.

### iii) Shadow Log

The implementation of a Shadow Log is particularly important for the standards that will impact on query management. Specifically, when Users submit queries that are deemed to be 'invalid' the Shadow Log will be activated. The Shadow Log will exclude invalid queries from the calculation of liability payments to users.

In essence, the aim of this aspect of the modification proposal is to ensure that the query management system is operated in an efficient and economic manner and to encourage Users to only raise queries when they are as sure as they can be that there is a genuine issue to resolve. By placing mutual responsibilities and obligations upon Transco and Users, it is hoped that the number of overall queries and especially 'invalid' queries will decrease.

### iv) Volume Scaling for User Queries

It is recognised that the level of queries submitted by individual Users during any one day or month can not be accurately predicted. However, a sudden influx of queries could adversely impact on Transco's ability to resolve all queries within the required timescales and consequently lead to the payment of higher than usual liabilities to Users. Although individual peaks may be balanced by equivalent reductions in the submission of queries from other Users, the development workgroup believed that it was important to put in place a mechanism which would protect Transco from large swings in query volumes and avoid any perverse incentives to submit unusually high levels of queries. For this reason, each User will have a 'Current Month Daily Limit'. This will place a limit on the number of queries each User is allowed to submit during any one business day and is calculated by the highest daily average within the preceding 3 months + 20%. This is set out in further detail in the Standards of Service Query Management – Operational Guidelines.

As some Users will submit very low numbers of queries in a month, a recalculation of their Current Month Daily Limit will have only a nominal, if any, impact upon Transco. In recognition of this and following discussions within the development workgroup and analysis undertaken by Transco, is proposed that the lowest value to be used for such small Users simply be set at 5 per day.

## **Respondents' views**

Of the seven companies who responded to the consultation, six were in favour of the modification proposal. Respondents expressed a variety of reasons for supporting the proposal. Among these was the belief that the new proposal will place greater incentives on Transco to improve their performance in critical areas and to resolve queries within

reasonable timescales. However, one respondent also stated that while they supported the proposal, liability payments did not in any way compensate for poor performance. One respondent also stated that the introduction of query management standards could not only lead to an improved performance in that area but may also focus Transco on root cause analysis, something which could prevent the need for queries being raised in the first place and provide improve overall performance on a more long term basis.

One respondent was strongly opposed to the implementation of this modification proposal. While this respondent accepts that the proposal does offer some improvement to the existing regime, it has a number of concerns regarding the Operational Guidelines for the management of queries.

In particular, there is concern that the proposed new query definitions are too restrictive. There is general discontent that this modification proposal could allow Transco to dictate how and when queries are raised by Users and a strong belief that all queries should be treated as valid or genuine. This respondent also objected to the inference that Users might knowingly raise invalid queries with the aim of receiving higher levels of liability payments from Transco. In addition, they state that this proposal does not encourage Transco to recognise the responsibilities that they have towards Users (their customers) nor does it recognise the level of service Users require to operate their businesses at an acceptable level.

### **Ofgem's views**

Modification proposal 565 is the result of many months of discussion and work for both Transco and the Shipping community. This is reflected in the proposal, which in Ofgem's view represents a more satisfactory and appropriate standards of service package than currently exists. Those standards that already exist within the Network Code have been amended to more accurately reflect the day to day interactions between Transco and its customers (Users). In addition, the inclusion of new standards relating to GT and Metering queries places new incentives on Transco to resolve queries within more acceptable timescales and encourages Users to act with more diligence when using the Query Management System.

In terms of defining queries, Ofgem acknowledges the view of the respondent that stated that any organisation that receives a communication from one of its customers should respond in the appropriate manner. However, it is almost by definition impractical to set appropriate standards for the resolution of queries unless the nature of such queries is at least generally known. Ofgem note that a significant part of the development workgroups time was taken on the definition of 'query' and understand this definition to encompass the vast majority of those likely to be raised. However, this does not preclude the definitions being amended in future if alternative query types become more commonplace and relevant, or queries not conforming to these definitions being dealt with expediently, albeit outwith this Standards of Service package.

Ofgem have no view on whether the figure of 5 queries per day as a lowest value to be used for a User's Current Month Daily Limit is appropriate or otherwise, but would anticipate that the figure be reviewed if proven to be inappropriate.

Ofgem support the implementation of modification proposal 565 as it believes it will better facilitate the fulfilment of Transco's relevant objectives as defined in its Gas Transportation licence. In addition, it provides the shipping community with a degree of reassurance that Transco will now be subject to rigorous timescales and associated liability payments upon failure of these new standards.

**Ofgem's decision**

In light of the above, Ofgem has decided to direct Transco to implement this modification proposal as we believe that it better facilitates the relevant objectives of Transco's Gas Transporters Licence.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S. McEwen', with a stylized, cursive script.

**Samantha McEwen**  
**Manager, Gas Network Codes**